

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>CREATIVE MONTESSORI ACADEMY</b>	County <b>WAYNE</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>10/16/05</b>	Date Accountant Report Submitted to State: <b>10/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.


- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.**

Street Address <b>4855 STATE STREET</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48603</b>
Accountant Signature 		Date <b>10/28/05</b>	

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

October 16, 2005

To the Board of Directors  
Creative Montessori Academy  
Southgate, Michigan

We have audited the accompanying financial statements of the governmental activities of Creative Montessori Academy, as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Creative Montessori Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Creative Montessori Academy as of June 30, 2005, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Creative Montessori Academy  
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2005, on our consideration of Creative Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Gardner, Provenzano, Schaumann & Thomas, P.C.*

Certified Public Accountants

## **CREATIVE MONTESSORI ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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This section of Creative Montessori Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- Blended enrollment used for state aid purposes was \$539.51 in June 2005.
- Long Term Debt was reduced by \$41,584.
- The Academy maintained its outstanding liabilities.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

The first two statements are Academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year.

Figure A-1 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**CREATIVE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Figure A –1 Major Features of the Academy-wide and Fund Financial Statements**

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

**Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment and the Academy's ability to be competitive with other public school academies and area school districts.

**CREATIVE MONTESSORI ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has one type of fund:

Governmental fund – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial Analysis of the Academy as a Whole

Net assets - the Academy's combined net assets were \$1,031,832 on June 30, 2005. See Figure A -2.

The total revenues decreased by 3 percent to \$4,081,288. State aid foundation allowance included in revenue from state sources accounts for most of the Academy's revenue (94 percent).

Federal Revenue decreased by 62 percent to \$114,551. The majority of this variance was due to Continuation Grant funds which were not available for the June 30, 2005 fiscal year-end.

The total cost of instruction decreased by 4 percent to \$1,985,929.

Academy Governmental Activities

The stable health of the Academy's finances results from a balance between a weaker economy resulting in less state and other revenue and offset by the management of expenses. The school board oversaw the Academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

**CREATIVE MONTESSORI ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Financial Analysis of the Academy as a Whole (continued)

Figure A-2

	2005	2004
Condensed net assets		
Assets		
Current and other assets	\$ 1,246,270	\$ 870,479
Capital assets -		
Net of accumulated depreciation	315,204	345,701
Total assets	<u>1,561,474</u>	<u>1,216,180</u>
Liabilities		
Current liabilities	526,106	379,819
Noncurrent liabilities	3,536	45,120
Total liabilities	<u>529,642</u>	<u>424,939</u>
Net assets		
Invested in capital assets -		
Net of related debt	311,668	300,581
Unrestricted	720,164	490,660
Total Net Assets	<u>\$ 1,031,832</u>	<u>\$ 791,241</u>

Figure A-3

	2005	2004
Revenue		
Program revenue		
Charges for services	\$ 45,543	\$ 44,843
Grants and contributions	250,624	390,891
General revenue		
State foundation allowance	3,737,121	3,734,367
Other	48,000	40,893
Total revenue	<u>4,081,288</u>	<u>4,210,994</u>
Function/Program expenses		
Instruction	1,985,929	2,075,016
Support services	1,730,504	1,706,384
Food services	51,620	54,712
Athletics	2,573	1,637
Interest on long-term debt	10,679	8,214
Depreciation (unallocated)	59,392	60,955
Special item		64,115
Total expenses	3,840,697	3,971,033
Increase (decrease) in Net Assets	<u>\$ 240,591</u>	<u>\$ 239,961</u>



**CREATIVE MONTESSORI ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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Financial Analysis of the Academy's Funds

The stable financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds (general and special revenue) reported a fund balance of \$720,164, an increase of \$229,504 over last year's ending fund balance of \$490,660.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the annual operating budget three times. These budget amendments fall into several categories:

Changes made in the second and fourth quarters to account for student enrollment counts, state aid, and changes in assumptions (e.g. resignation of a teacher, principal payments on leases, and building maintenance costs) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues by \$108,195, the actual results for the year showed revenues over expenditures of \$212,553.

Actual State revenues were \$189,064 lower than budgeted due to budgeting IDEA in the State function when it belongs in Federal, a continuation grant budgeted for that was not received and less Special Education money.

Actual expenditures were \$91,062 lower than budgeted for the basic programs instruction function. Reduced expenditures in teachers' and assistants' benefits, assistants' wages, substitute teachers, and computer maintenance and repair accounted for significant portion of reduced expenditures.

Actual expenditures were \$73,736 lower than budgeted for the operations and maintenance function. Expenditures were lower than projected in three main areas: maintenance salaries due to one custodian's absence on long term disability, electricity costs did not exceed factor in the building lease, and building rent was lower than anticipated due to failure of Academy and DCC to workout a lease for additional classroom space.

Capital Asset and Debt Administration

Capital Assets

By the end of the year ended June 30, 2005, the Academy had invested \$315,204 in capital assets consisting primarily of construction in progress, leasehold improvements, computers, equipment and furniture net of accumulated depreciation. More detailed information about capital assets can be found in Note

**CREATIVE MONTESSORI ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Capital Assets (continued)

4 to the financial statements. Total depreciation expense for the year was \$59,392.

Near the end of the fiscal year, the Academy entered into a contract to install a wireless technology network for the building. The project was in progress as of June 30, 2005. Expenditures that were incurred for this project during the 2004-05 fiscal year totaled \$17,000.

The Academy's capital assets are as follows:

Figure A-4

		Accumulated	2005 Net Book	2004 Net Book
	Cost	Depreciation	Value	Value
Construction in progress	\$ 17,000	\$ -	\$ 17,000	\$ -
Equipment and furniture	429,592	(172,822)	256,770	310,469
Computers	43,172	(13,336)	29,836	35,232
Leasehold improvements	11,895	(297)	11,598	-
	<u>\$ 501,659</u>	<u>\$ (186,455)</u>	<u>\$ 315,204</u>	<u>\$ 345,701</u>

Long-Term Debt Activity

At the year-end, the Academy had outstanding long-term debt obligations in the amount of \$3,536, which is a decrease of \$41,584 from last year. (more detailed information about the Academy's long-term liabilities is presented in Note 5 of the financial statements.)

	June 30, 2005	June 30, 2004
Capital leases	<u>\$ 3,536</u>	<u>\$ 45,120</u>

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was not aware of existing circumstances that could significantly affect its financial health in the future. The 2005-2006 foundation allowance (state aid funding) from the State of Michigan has increased by \$175 per student. The foundation allowance was reduced in 2002-2003 and 2003-2004. The foundation allowance represents 94 percent of the total Academy revenue.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 15100 Northline Rd, Southgate, MI 48195.

Creative Montessori Academy  
Academy Wide  
Statement of Net Assets  
June 30, 2005

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 216,430
Due from other governmental units	695,250
Due from management company	17,303
Prepaid	317,287
Capital assets less accumulated depreciation	315,204
Total Assets	<u>1,561,474</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 37,204
Accrued expenses	343,152
Due to management company	64,272
Revenue anticipation note	81,478
Capital leases, due within one year	3,536
Total Liabilities	<u>529,642</u>
<b>NET ASSETS</b>	
Invested in capital assets net of related debt	311,668
Unrestricted	720,164
Total Net Assets	<u><u>\$ 1,031,832</u></u>

The accompanying notes are an integral part of these financial statements.

Creative Montessori Academy  
Academy Wide  
Statement of Activities  
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 1,985,929	\$ -	\$ 177,557	\$ (1,808,372)
Support services	1,730,504	-	48,199	(1,682,305)
Food services	51,620	43,702	24,868	16,950
Athletics	2,573	1,841	-	(732)
Interest on long-term debt	10,679	-	-	(10,679)
Depreciation (unallocated)	59,392	-	-	(59,392)
Totals	<u>\$ 3,840,697</u>	<u>\$ 45,543</u>	<u>\$ 250,624</u>	<u>(3,544,530)</u>
General revenues:				
State aid - unrestricted				3,737,121
Other				<u>48,000</u>
Total General Revenues				3,785,121
Change in Net Assets				240,591
Net Assets - Beginning of Year				791,241
Net Assets - End of Year				<u>\$ 1,031,832</u>

The accompanying notes are an integral part of these financial statements.

Creative Montessori Academy  
Reconciliation of Balance Sheet of Governmental Funds To Academy Wide Statement of Net Assets  
June 30, 2005

Total Fund Balances - Governmental Funds	\$	720,164
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

The cost of the capital assets is	501,659
Accumulated depreciation is	(186,455)

Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

Capital leases	(3,536)
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Total Net Assets - Governmental Activities (Academy Wide)	<u>\$</u>	<u>1,031,832</u>
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The accompanying notes are an integral part of these financial statements.

Creative Montessori Academy  
Governmental Funds  
Balance Sheet  
June 30, 2005

	Governmental Fund Type		Totals (Memorandum Only) 2005
	General Fund	Non-major Funds	
<u>Assets</u>			
Cash	\$ 175,019	\$ 41,411	\$ 216,430
Due from other governmental units	695,250	-	695,250
Due from management company	17,303		17,303
Prepaid expense	317,287	-	317,287
Due from other funds	2,697	-	2,697
Total Assets	<u>\$ 1,207,556</u>	<u>\$ 41,411</u>	<u>\$ 1,248,967</u>
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 37,204	\$ -	\$ 37,204
Accrued expenses	343,152	-	343,152
Due to other funds	-	2,697	2,697
Due to management company	64,272	-	64,272
Revenue anticipation note	81,478	-	81,478
Total Liabilities	<u>526,106</u>	<u>2,697</u>	<u>528,803</u>
Fund Balance			
Unreserved and undesignated	681,450	38,714	720,164
Total Fund Balance	<u>681,450</u>	<u>38,714</u>	<u>720,164</u>
Total Liabilities and Fund Balance	<u>\$ 1,207,556</u>	<u>\$ 41,411</u>	<u>\$ 1,248,967</u>

The accompanying notes are an integral part of these financial statements.

Creative Montessori Academy  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2005

		Non-major	Totals (Memorandum Only)
Revenue	General	Funds	2005
Local	\$ 77,132	\$ 45,543	\$ 122,675
State	3,819,194	949	3,820,143
Federal	114,551	23,919	138,470
Total revenue	<u>4,010,877</u>	<u>70,411</u>	<u>4,081,288</u>
Expenditures			
Instruction	1,838,601	-	1,838,601
Added needs	147,328	-	147,328
Supporting services			-
Pupil support	80,440	-	80,440
Instructional staff	127,830	-	127,830
General administration	505,191	-	505,191
School administration	305,770	-	305,770
Business services	19,945	-	19,945
Operations and maintenance	703,264	-	703,264
Central	16,959	-	16,959
Food service	-	51,620	51,620
Athletics		2,573	2,573
Debt service	52,263	-	52,263
Total expenditures	<u>3,797,591</u>	<u>54,193</u>	<u>3,851,784</u>
Excess (Deficit) of Revenues over Expenditures	213,286	16,218	229,504
Other Financing Sources (Uses)			
Incoming transfers	-	733	733
Outgoing transfer	(733)	-	(733)
Total Other Financing Sources (Uses)	<u>(733)</u>	<u>733</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	212,553	16,951	229,504
Fund Balance, Beginning	468,897	21,763	490,660
Fund Balance, Ending	<u>\$ 681,450</u>	<u>\$ 38,714</u>	<u>\$ 720,164</u>

The accompanying notes are an integral part of these financial statements.

Creative Montessori Academy  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Academy Wide Statement of Activities  
For the Year Ended June 30, 2005

Net Change in Fund Balances - Governmental Funds	\$ 229,504
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Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are capitalized  
and depreciated over their estimated useful lives.

Depreciation expense	(59,392)
Capital outlay	28,895

Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities	41,584
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Change in Net Assets of Governmental Activities (Academy Wide)	\$ 240,591
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The accompanying notes are an integral part of these financial statements.



CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies

Creative Montessori Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

On November 8, 2000, the Academy entered into a five-year contract with Wayne County Regional Educational Service Agency (RESA) to charter a Public School Academy. On July 1, 2005, that contract was extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive State School Aid Funds pursuant to the State Constitution. The Wayne County Regional Educational Service Agency Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Wayne County Regional Educational Service Agency Board of Trustees 3% of State Aid as an administrative fee. The total administrative fee paid through June 30, 2005, to the Wayne County Regional Educational Service Agency Board of Trustees was approximately \$112,114.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-Wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-Wide statements and the statements for the governmental funds.

The Academy-Wide statement of activities presents a comparison between program expenses and program revenues, revenues that are not classified as direct program revenues are presented as general revenues. Program revenues include charges for services contributions and grants attributable to a particular function. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws resources from the Academy.

The Academy-Wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purposes. The Academy maintains full control of these funds. The Academy maintains a Food Service Fund and an Athletic Fund.

The emphasis, for GASB 34 purposes, in fund financial statements is on the major funds. The General Fund is the only major fund. The Food Service fund and Athletic fund are non-major funds and are displayed in the non-major fund column of the fund financial statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when a liability incurred, regardless of timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when due.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Due from Other Governmental Units

Due from other governmental units consists of all revenues earned at year-end but not yet received.

Due from Management Company

Due from management company is the amount over estimated and paid by the Academy for management fees.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with a cost or estimated value of \$5,000 are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Furniture and equipment	5-20 years
Computers	8 years
Leasehold improvements	10 years

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of fees owed to the Academy's oversight agency.

Due to Management Company

Due to Management Company consist of amounts due on contracted employees' salaries and supplies.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Long-Term Liabilities

Long-Term liabilities consist of a capital lease for equipment and furniture.

Inter-fund Activity

Inter-fund activity is reported as loans, reimbursements, or transfers. Loans are reported as inter-fund receivables and payables and are eliminated upon consolidation. Transfers are eliminated upon consolidation.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund Food Service and Athletic budget by activity for the year ended June 30, 2005. These budgets have been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts for the General Fund presented in the financial statements are as amended by the Board of Directors. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. Budget variances are illustrated in the supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments (continued)

As of year-end, the carrying amount of the Academy deposits was \$216,430 and the bank balance was \$218,242. Of the bank balance, \$100,000 was covered by federal depository insurance and \$118,242 was uninsured and un-collateralized.

The Academy does not hold any investments and does not have an investment policy. However, the Board is in the process of adopting an investment policy.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not subject to depreciation				
Construction in progress	\$ -	\$ 17,000		17,000
Subtotal	-	17,000	-	17,000
Capital assets subject to depreciation				
Equipment and furniture	429,592	-	-	429,592
Computers	43,172	-	-	43,172
Leasehold improvements	-	11,895	-	11,895
Subtotal	472,764	11,895	-	484,659
Total Capital Assets	472,764	28,895	-	501,659
Accumulated depreciation				
Equipment and furniture	119,123	53,699	-	172,822
Computers	7,940	5,396	-	13,336
Leasehold improvements	-	297	-	297
Total Accumulated Depreciation	127,063	59,392	-	186,455
Total Net Capital Assets	\$ 345,701	\$ (30,497)	\$ -	\$ 315,204

Depreciation was not allocated by function as the Academy considers its capital assets to impact multiple activities and allocation is not practical. Capital assets included \$123,140 of equipment and furniture purchased through a capital lease.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt

A summary of long-term debt transactions follows:

	Balance June 30, 2004	Additions	Payments	Balance June 30, 2005	Current Portion
Computer Equipment Lease	\$ 8,679	\$ -	\$ 8,679	\$ -	\$ -
Furniture & Equipment Lease	36,441	-	32,905	3,536	3,536
	<u>\$ 45,120</u>	<u>\$ -</u>	<u>\$ 41,584</u>	<u>\$ 3,536</u>	<u>\$ 3,536</u>

Long-term debt at June 30, 2005, is comprised of the following:

Capital lease for equipment payable to Learning Solutions Unlimited, LLC in monthly installments of \$3,570 bearing interest of 11.18%. Maturing on June 30, 2005. \$3,536

Total long-term debt \$3,536

The annual requirements to service debt to maturity, including both principal and interest, are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2006	<u>\$ 3,536</u>	<u>\$ 34</u>	<u>\$ 3,570</u>

Interest expense for the year on all debt totaled approximately \$10,679.

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Related Party Transactions

The Academy entered into a management agreement with Choice Schools Associates (CSA) effective July 1, 2003, that will cover five academic years commencing on July 1, 2003, and ending June 30, 2008. CSA is responsible for all of management operations, administration, and education of the Academy. The Academy subcontracts all employees from CSA and reimburses CSA for employee and operating costs.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 7--Related Party Transactions (continued)

The Academy pays management fees in the amount of 10% of the amount of all payments the Academy receives directly or indirectly under Paragraph A of the management agreement, less amounts retained by the oversight agency and the amounts of all grants received by the Academy under Paragraph B of the management agreement that were initiated and administered by CSA and which are to be expended in that school year.

Management fees for the year ended June 30, 2005, amounted to \$382,163. Salaries and related benefit expenses paid to CSA for the year ended June 30, 2005, amounted to \$2,273,257. At June 30, 2005, the Academy owed CSA \$64,272 for employee salaries, benefits, and supplies. CSA owed the Academy \$17,303 for an overestimation and payment of management fees.

NOTE 8--Lease Commitments

The Academy leases the building it occupies from its former management company under a real estate lease expiring in December 2010. Under the agreement, lease payments may be prepaid without penalty in six-month increments at a discount rate of 4.5%. During the year ended June 30, 2005, the Academy took advantage of this discount. Lease payments are due in the amount of \$47,000 per month plus an increase each January 1 by an amount equal to the percentage of any increase in the CPI Index. The amount expensed under the lease totaled approximately \$550,114 for the year ended June 30, 2005.

The Academy leases certain furniture and equipment from its former management company under two operating leases expiring in January 2005 and June 2006. The amount expensed under the leases totaled approximately \$68,111 for the year ended June 30, 2005.

The Academy leases its phones from an unrelated party under an operating lease expiring in November of 2005. The amount expensed under the lease totaled approximately \$4,678 for the year ended June 30, 2005.

The Academy has two lease agreements for copiers from an unrelated party. The amount expensed under the two leases totaled approximately \$8,378 for the year ended June 30, 2005. Both are operating leases.



CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments (continued)

The future annual estimated minimum lease requirements for all leases are as follows:

For the Year Ended June 30,	Total
2006	574,704
2007	566,592
2008	566,592
2009	566,592
2010	270,756
Total	<u>\$ 2,545,236</u>

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10--Subsequent Event

Subsequent to year-end, the Academy issued a short-term State Aid Anticipation Note totaling \$800,000 that will be repaid during the 2005-06 fiscal year.

NOTE 11--Notes Payable

The Academy had \$81,478 outstanding at June 30, 2005 on a state aid anticipation note due in July of 2005, bearing interest at 3.99%. The following are the changes in short-term debt:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Governmental Activities				
State Aid anticipation note	88,930	800,000	807,452	81,478
Totals	<u>\$ 88,930</u>	<u>\$ 800,000</u>	<u>\$ 807,452</u>	<u>\$ 81,478</u>

The proceeds from the state aid anticipation note were used to sustain operations until the Academy received state aid.

CREATIVE MONTESSORI ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 12—Inter-fund Receivables, Payables and Transfers

The makeup of the inter-fund balances and transfers are as follows:

Interfund Receivable		Interfund Payable	
General Fund	\$ 3,646	Athletics	3,646
Food	<u>949</u>	General Fund	<u>949</u>
Total	<u>\$ 3,646</u>	Total	<u>\$ 3,646</u>

These amount were netted on the Balance Sheet.

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 733	Food	\$ 733
Total	<u>\$ 733</u>	Total	<u>\$ 733</u>

The receivables and payables were amounts one fund paid on behalf of another.

The General Fund transfer to the Athletic was to subsidize the athletic program.

REQUIRED  
SUPPLEMENTAL INFORMATION

Creative Montessori Academy  
Budgetary Comparison  
For the Year Ended June 30, 2005

	General Fund			Special Revenue Funds		
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Actual
Revenue						
Local	\$ 81,000	\$ 68,000	\$ 77,132	\$ 9,132	\$ 39,860	\$ 45,543
State	4,048,710	4,008,258	3,819,194	(189,064)	-	949
Federal	29,073	30,365	114,551	84,186	35,820	23,919
Other financing sources	-	-	-	-	-	733
Total Revenues	<u>4,158,783</u>	<u>4,106,623</u>	<u>4,010,877</u>	<u>(95,746)</u>	<u>75,680</u>	<u>71,144</u>
Expenditures						
Instruction	1,937,269	1,929,663	1,838,601	91,062	-	-
Basic programs	144,639	148,933	147,328	1,605	-	-
Added needs						
Support Services						
Pupil	82,358	81,452	80,440	1,012	-	-
Instructional staff	137,236	125,274	127,830	(2,556)	-	-
General administration	536,100	530,980	505,191	25,789	-	-
School administration	302,597	295,000	305,770	(10,770)	-	-
Business	24,800	37,332	19,945	17,387	-	-
Operation and maintenance	788,494	777,000	703,264	73,736	-	-
Central services	10,000	18,000	16,959	1,041	-	-
Debt	53,294	53,294	52,263	1,031	-	-
Community services	6,450	1,500	-	1,500	-	-
Food service	-	-	-	-	74,300	51,620
Athletic activities	-	-	-	-	3,750	2,573
Outgoing transfers and other	-	-	733	(733)	-	-
Total Expenditures	<u>4,023,237</u>	<u>3,998,428</u>	<u>3,798,324</u>	<u>200,104</u>	<u>78,050</u>	<u>54,193</u>
Excess (Deficiency) of Revenues						
Over Expenditures	135,546	108,195	212,553	104,358	(2,370)	16,951
Fund Balance - Beginning of Year	468,897	468,897	468,897	-	21,763	21,763
Fund Balance - End of Year	<u>\$ 604,443</u>	<u>\$ 577,092</u>	<u>\$ 681,450</u>	<u>\$ 104,358</u>	<u>\$ 19,393</u>	<u>\$ 38,714</u>

## ADDITIONAL SUPPLEMENTAL INFORMATION



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

October 16, 2005

To the Board of Directors  
Creative Montessori Academy  
Southgate, Michigan

We have audited the financial statements of the governmental activities of Creative Montessori Academy, as of and for the year ended June 30, 2005, which collectively comprise the Creative Montessori Academy's basic financial statements and have issued our report thereon dated October 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creative Montessori Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we did issue a letter to management dated October 16, 2005 relating other matters of internal control.

To the Board of Directors  
Creative Montessori Academy  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creative Montessori Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

October 16, 2005

Board of Directors  
Creative Montessori Academy  
Southgate, Michigan

In planning and performing our audit of the financial statements of the Academy for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

We are pleased to report that many of the issues reported to the Board of Directors concerning last year's audit appear to be resolved. However, during our audit, we became aware of matters that are opportunities for the further strengthening of internal controls and operating efficiency.

## Grant Related Expenditures

We noted that expenditures related to several grants had not been segregated on the trial balance forwarded to us for audit. The segregation of grant expenditures is required by the grant agreements. A considerable amount of time was spent obtaining the information identifying where the grants were spent.

We recommend that grant related expenditures be segregated in the general ledger through out the year as the expenditures are incurred. In addition, a comparison of revenue and expenditures should be completed before the trial balance is given to the auditor. Any revenue found not to be spent should be deferred.

## Lease Payments

During the course of fieldwork we noted that it appeared as though two additional payments had been paid on three leases to the Academy's prior management company. Efforts to resolve the issue with the prior management company were not successful. In addition, two of the leases expired shortly after year-end and during subsequent payment testing it appeared as though payments on these leases were still being made after the leases expired.



Board of Directors  
Creative Montessori Academy  
October 16, 2005  
Page Two

We recommend the Board review all leases to ensure that payments are not made after the leases have expired and that proper notice is given, if required, to cancel the lease in a timely manner.

#### Capital Assets Inventory

Capital assets represent some of the Academy's most valuable assets. Not only is it important for the Academy to institute such a system as a part of good internal controls, but GASB No.34 requires the reporting of both the cost of all capital assets as well as the depreciation associated with each asset and the gain or loss on disposal.

We found improvement over the policies in place from last year. The Academy did adopt a capitalization policy, did take a fiscal inventory, and did tag assets as suggested. However, we noted that the depreciation schedule given to us for audit still included unidentified assets taken from the June 30, 2001 and 2002 audit report in the amount of \$247,381. We realize that it may be difficult to locate the invoices. However we believe that perhaps the inventory taken be reviewed and the depreciation schedule adjusted down to the actual physical assets that exceed \$5,000, which is the Academy's capitalization threshold.

#### Invoices

We had difficulty obtaining invoices requested during fieldwork in a timely manner. We noted some transactions did not have the proper invoices to support the transaction readily available at the Academy. By the end of fieldwork all invoices requested were located by the management company.

We recommend that all transactions be supported by original invoices before the Board of Director signs and releases payment. We also recommend the management firm improve maintenance of financial documentation, in order to better support authorized requests for information.

We will review the status of these issues during our next audit engagement.

This report is intended solely for the information and use of the Academy's management and others within the organization.

*Gudner, Purvengomo, Schauman & Thomas P.C.*

Certified Public Accountants